



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of the Application of )

CALIFORNIA WATER SERVICE COMPANY (U 60 W), )  
a corporation, )

for an order authorizing it to increase rates charged for )  
water service in its Chico District by \$6,380,400 or 49.1% )  
in July 2008, \$1,651,100 or 8.5% in July 2009, and by )  
\$1,651,100 or 7.9% in July 2010; )  
in its East Los Angeles District by \$7,193,200 or 36.5% )  
in July 2008, \$2,034,800 or 7.6% in July 2009, and by )  
\$2,034,800 or 7.0% in July 2010; )  
in its Livermore District by \$3,960,900 or 31.2% in July )  
2008, \$942,200 or 5.6% in July 2009, and by \$942,200 )  
or 5.4% in July 2010; )  
in its Los Altos-Suburban District by \$5,172,500 or 30.5% )  
in July 2008, \$1,189,100 or 5.4% in July 2009, and by )  
\$1,189,100 or 5.1% in July 2010; )  
in its Mid-Peninsula District by \$5,435,100 or 23.7% in )  
July 2008, \$1,634,200 or 5.8% in July 2009, and by )  
\$1,634,200 or 5.5% in July 2010; )  
in its Salinas District by \$5,119,700 or 29.8% in July )  
2008, \$3,636,900 or 16.3% in July 2009, and by )  
\$2,271,300 or 8.7% in July 2010; )  
in its Stockton District by \$7,474,600 or 29.0% in July )  
2008, \$1,422,400 or 4.3% in July 2009, and by \$1,422,400 )  
or 4.1% in July 2010; )  
and in its Visalia District by \$3,651,907 or 28.4% in July )  
2008, \$3,546,440 or 21.3% in July 2009, and by \$3,620,482 )  
or 17.6% in July 2010; )  
)

Application No. 07-07-001  
Filed July 3, 2007

RESPONSE TO ALJ THOMAS' OCTOBER 19, 2007 RULING

Thomas F. Smegal  
Manager of Rates  
California Water Service Company  
1720 North First Street  
San Jose, CA 95112

Representative of Applicant

November 19, 2007

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RESPONSE TO ALJ THOMAS' OCTOBER 19, 2007 RULING

California Water Service includes its response to ALJ Thomas' October 19 ruling as Appendix A. Please note that Cal Water is only filing this response itself. All reference material is being served on the parties to the Proceeding.

/s/ Thomas F. Smegal  
Thomas F. Smegal  
Representative of California  
Water Service Company

November 19, 2007  
Date

1720 North First Street  
San Jose CA, 95112  
408-367-8200  
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## Appendix A

California Water Service Co.

**CALIFORNIA WATER SERVICE COMPANY**

**2007 GRC Application 07-07-001 (Filed July 3, 2007)**

**Third Ruling of Administrative Law Judge Seeking Additional Information**

**Regarding California Water Service Company's 2007 General Rate Case**

|                       |                                  |                        |              |
|-----------------------|----------------------------------|------------------------|--------------|
| Recipient:            | California Water Service Company |                        |              |
| CWS Data Request No.: | Third Ruling of ALJ              |                        |              |
| CWS File Name:        |                                  |                        |              |
| Request Date:         | October 19, 2007                 | CWS Contact:           | Tom Smegal   |
| Due Date:             | November 19, 2007                | CWC Contact Phone No.: | 408-367-8219 |

Q 1.i.a) Formal Application – Work papers

WP 6-B1. What is the Water Awareness Committee of Monterey County?

Response

The Water Awareness Committee of Monterey County (WAC) is a non-profit organization made up of representatives from all water agencies and cities on the Central Coast. The primary purpose of the WAC is to promote water conservation. The WAC has implemented many quality projects on the Central Coast: The following will list some of the accomplishments:

- ✓ Developed a Water-Wise Gardening in Monterey County CD that is available to the public.
- ✓ Performed many in-school programs that teach students about the importance of water conservation and not polluting our streams, rivers and aquifers.
- ✓ Participated in local events such as Earth Day, conservation fairs, Chamber of Commerce events, etc. During these events literature is passed out to visitors along with water saving devices such as low-flow shower heads, water nozzles, etc.
- ✓ Provide speakers for different events to teach water conservation.

Q 1.i.b.) Formal Application – Work papers California Water Service Company, Salinas, Advance Capital Budget, 2007 (page 5 of 16), 2008 (page 10 of 16), and 2009 page 14 of 16. You plan to replace several vehicles based on a standard formula. Is that formula appropriate given the current durability of vehicles?

Response

Please see Cal Water’s response to your first information request, question 1.(g). No party has introduced evidence in any Cal Water proceeding that “the current durability of vehicles” is any different than in prior years. In A.06-07-017, both DRA and Cal Water stated that no studies had been done on vehicle replacements. While several parties have made anecdotal references to warranties or other factors, the Commission should consider the following key points before jumping to a conclusion:

- Most of Cal Water’s vehicles are trucks in utility use. The patterns of wear on utility trucks are different than vehicles generally.
- Anecdotally, the cost of vehicle repairs and maintenance has increased more quickly than the cost of the vehicles themselves. This may change the timing of cost-effective replacements.
- Cal Water’s rate base is credited with the salvage (resale) value of replaced vehicles. If the marketplace perceives additional life in Cal Water vehicles, it should be reflected in increased salvage value.

Q 1.ii.a.1) Table of Contents (In the project justification book)

Page 1. Provide further justification of the need for a new customer service center (\$4,320,000), and accompanying furnishings (\$259,200). See questions re Tab 26.

Response

The new customer center and accompanying furnishings were removed from consideration for the 2007 GRC, and as such were not included in utility plant. The table of contents for the project justification book sent to the ALJ was apparently an earlier version that still listed the projects.

Q 1.ii.a.2.) Table of Contents (In the project justification book)

Page 3. Provide further justification of the need to acquire property for a new customer center and operation center office and yard (\$5,670,000, project #00011478). See questions re Tab 26 below.

Response

The new customer center, land and accompanying furnishings were removed from consideration for the 2007 GRC, and as such were not included in utility plant. The table of contents for the project justification book and other documents sent to the ALJ were apparently earlier versions that still listed the projects.

Q 1.ii.b) Tab 4 et seq. Provide the name/title of preparer for each job that does not have one.

Response

Below is a list of the preparers and their titles.

| Tab | Project | Name of Preparer | Title                            |
|-----|---------|------------------|----------------------------------|
| 4   | 13155   | Jan Kooy         | Manager of Electricl Engineering |
| 5   | 14587   | Girle Jacobson   | P.5 Senior Engineer              |
| 6   | 15782   | Girle Jacobson   | P.5 Senior Engineer              |
| 8   | 15804   | Girle Jacobson   | P.5 Senior Engineer              |
| 9   | 15810   | Nelson Lui       | P.4. Engineer                    |
| 10  | 15832   | Girle Jacobson   | P.5 Senior Engineer              |
| 11  | 9148    | Erin McCauley    | Manager of Design                |
| 12  | 9210    | Erin McCauley    | Manager of Design                |
| 14  | 15785   | Erin McCauley    | Manager of Design                |
| 24  | 9147    | Erin McCauley    | Manager of Design                |
| 25  | 9209    | Erin McCauley    | Manager of Design                |
| 26  | 15544   | Erin McCauley    | Manager of Design                |
| 27  | 15885   | Erin McCauley    | Manager of Design                |



Q 1.ii.c) Tab 5. [PID 14587] Why was the budget accommodated to a 1-million gallon tank if a 1.5 million gallon tank was needed/installed?

Response

In 2004, when PID # 12565 (Phase 1) was prepared, the Water Supply and Facilities Master Plan (WS&FMP) was not yet complete. At that time, based upon the information available, the recommended tank size was 1 million gallons. However, the completed WS&FMP (2005) recommended additional storage of 1.2 million gallons. Also, the system had experienced a loss of well production due to water quality issues. Therefore, overall tank size was increased from the original 1 million gallons to the constructed 1.5 million gallons.

Q 1.ii.d) Tab 6. [PID 15782] Is the 1 million gallon tank discussed here different from tank discussed at Tab 5 [PID 14587]? Were two tanks needed/installed?

Response

Yes, the tanks discussed in Tabs 5 and 6 are two different tanks. The 1-million gallon tank discussed in Tab 6 is located in 280 pressure zone and the 1.5-million gallon tank discussed in Tab 5 was constructed for pressure zones 155 and 180. Both tanks were needed as noted in the Water Supply and Facilities Master Plan. The 280 pressure zone had a storage deficit of 3.62 million gallons before its new tank was constructed and the 155 and 180 pressure zones had storage deficit of 1.2 million gallons before its tank was constructed.

Q 1.ii.e) Tab 16. [PID 16686] Does this project duplicate/overlap with those at Tabs 15 and 28? [PID 16668 & 16931] Why are leaks not documented, and how does the District Manager estimate leaks without such documentation?

Response

Projects 16668 (Hall Road and Elkhorn), 16686 (Hall Road) and 16691 (Elkhorn Road) are all separate projects and are not duplicated. The projects are close together in location and can be viewed as a phased project.

Project 16668 leaks were documented in the justification on page 1:

1. July, 10, 1992
2. September 29, 1992
3. December 23, 1994
4. March 11, 1996
5. March 11, 1998
6. July 13, 2004
7. September 16, 2004
8. December 8, 2005
9. February 23, 2006

Project 16686 – This is a 2” standard steel water main that provides very little fire protection and has had many leaks. Cal Water purchased the system from Water West in 1988. Water West did not keep leak records. After Cal Water took over the system, unfortunately our leak cards were misplaced during a supervisor transition. However, it was determined that approximately 10 to 12 excavation patches existed in the travelled roadway, not taking into consideration the leaks that Water West repaired.

Project 16931 – Noted below are the documented leaks for this section of main:

1. 329 Elkhorn Road – 7 /10/1992
2. 329 Elkhorn Road – 9/29/1992
3. 435 Elkhorn Road – 12/23/1994
4. 435 Elkhorn Road – 2/23/2006
5. 329 Elkhorn Road – 9/29/1992

6. 435 Elkhorn Road – 4/2/2007
7. 435 Elkhorn Road – 7/9/2007

Q 1.ii.f) Tab 17. [PID 16929] No materials included behind this tab; was this intentional?

Response

This was not intentional, but merely an inadvertent error. Included is a copy of the project justification for tab 17. (Attachment SRT-3 no. 1.ii.f)

Q 1.ii.g) Tab 21. The back-up documentation does not appear to relate to iron/manganese treatment. Please provide relevant documentation to justify the \$743,300 expense.

Response

Below is a line by line breakdown of costs associated with PID 17000. Also, attached is documentation justifying the costs as set at the time the project was written. (SRT-3 no. 1.ii.g attachment 1) All costs were estimated based on similar projects and engineering judgment.

Q 1.ii.h) Tab 22.

- (i) This tab provides a helpful Water Supply Assessment for a small part of Monterey County. Do such assessments exist for the eight districts covered by the current GRC? If so, describe.
- (ii) On page 13 of the Assessment, you state that “ in Cal Water districts where [conservation and best management practices] have been actively promoted, Cal Water has been able to reduce projected water demand by 10%.” To which districts do you refer?
- (iii) On page 14 of the Assessment, you state that “upon transfer of ownership of the Rancho Los Robles water system to Cal Water by the developer, the water system will be incorporated into Cal Water’s capital improvement program.” When will the transfer occur? Are you requesting the funding under this Tab now, or at transfer?
- (iv) On page 15 you identify a May 2005 Master Water Supply and facilities Plan. Please furnish a copy if you have not done so already, or a citation to where the copy appears if you have done so.
- (v) On page 18 you state that “the Rancho Los Robles development would result in a net positive reduction of consumptive groundwater use....” It seems counterintuitive that a new development would reduce groundwater use; explain.

Response

- (i) Water Supply Assessments are required to be prepared per the provisions of SB 610. Therefore, any of the eight districts that had projects that met the criteria outlined in SB 610 would have had a Water Supply Assessment prepared for that project. Attached as SRT-3 No. 1.ii.h (i) is a document addressing the provision of the bill.
- (ii) Cal Water is unable to verify or document the claim at this time.
- (iii) The water supply assessment is an independent document issued to comply with provisions of state law. The purpose of providing the document was to demonstrate a need for water supply that could be met by the project. Cal Water is constructing this project to meet the defined need. The section to

which you refer is required by the statute to address the ongoing capital improvement and financing needs of a new system. While Cal Water anticipates the development to be in service in 2008, it does not anticipate any near-term capital improvements necessary in addition to the water supply project and facilities advanced by the developer. Cal Water is not requesting funding for any additional capital improvements at this time. Cal Water is, however, requesting funding for the iron and manganese treatment project. This project must be completed in advance of customer hookups, or those customers may not have necessary water supplies.

- (iv) Cal Water's Salinas Water Supply and Facilities Master Plan has been provided in response to your second information request.
- (v) All calculations used to make that conclusion are shown on the preceding pages. The area to be developed was in agricultural production using groundwater for irrigation. The assessment calculates that residences on this site will use less overall water than the prior agricultural use.

Q 1.ii.i) Tab 23. Please furnish a copy of the "Feasibility Study for Long-Term Water Supply for the Salinas District," or a citation to where it appears in the record.

Response:

The Feasibility Study for Long-Term Water Supply for the Salinas District is a confidential report that reveals critical station locations. A copy is included as an attachment to be viewed only by ALJ Thomas and DRA staff. Cal Water requests that this information be destroyed or returned to Cal Water at the end of the proceeding. Unfortunately, Cal Water is unable to create a redacted version of this study at this time



Q 1.ii.j) Tab 26. [PID 15885] New customer service center. Have there been any incidents in which your employees have been victims of crime at the existing office? Describe. How long has the existing office been in the existing location?

Response

There were initially three projects associated with a new Customer Service Center for the Salinas District to be included with the 2007 GRC. However, due to the total capital improvement program proposed for the Salinas District aside from a new Customer Service Center, Cal Water decided to defer these projects until the 2009 GRC. None of the costs associated with PIDs 11478, 16832 and 16835 were included in utility plant for 2007, 2008 or 2009 for the 2007 GRC.

Q 1.ii.k) Tab 27. [PID 16691] The supporting documentation has nothing to do with the request for furnishings for the new office facility. Please provide supporting documentation.

Response

Tab 27 contains the justification for PID 15885, replacing electrical equipment. It appears from the several references to tabs with mismatched descriptions that the project justification book that you received is not an updated copy. A copy of the latest justification book will be forwarded with the hard copy of the response.

Q 1.ii.1) Tab 32. [PID 17232] The documentation states that Well 24-01 “is showing dramatic increase in nitrates in the last 3 years, and is expected to exceed the MCL in 2009 or 2010.” Is there any way to trace the source of the dramatic increase in nitrates and mitigate it at the source? Explain.

Response

The Regional Water Quality Control Board and the Department of Toxic Substances Control are the agencies responsible for determining the origin of contamination, and who pays for the expense to clean it up. Even though nitrate is a contaminant, and it does not naturally occur in groundwater aquifers, regulators do not attempt to determine who the responsible party might be. Nitrate is considered a non-point source contamination because it comes from application of fertilizer to fields, septic tanks, and animal waste, primarily from large feed lots and holding areas. There is no mechanism in place to ensure that farmers are applying fertilizer at proper amount, or that the sole contributor is from animal waste.

Q 1.iii.a) Results of Operation and Prepared Testimony - Page 26

- (i) State whether, as you assumed when you filed your application, the Spreckels Water Company contract has been discontinued. If not discontinued, explain how you allocate costs/revenues from the contract to ratepayers and unregulated operations.
- (ii) Explain the allocation of the Foothill Estates contract, and how it complies with the allocation requirement of D.03-09-021.
- (iii) Verify the \$5,700 customer credit from the CWS Utility Services' ESP program is a total figure for Salinas. State how the allocation meets the allocation requirements of D.03-09-021.

Response

(i) The Spreckels Water company contract has been cancelled as of November 1, 2007. Please see the attached letter.

(ii) The Foothill Estates Contract is fully allocated. This contract is for operation of a 79-customer mutual water system. Cal Water does not bill the customers of Foothill Estates. The following summarizes Cal Water's cost allocation to this contract:

District Labor – Direct Billed

District Mileage – Direct Billed

General Office Expenses – Flat allocation of \$50/month plus allocation of benefits from direct charges.

General Office Rate Base – Cal Water fully allocates general office rate base to unregulated contracts. The effective allocation of General Office rate base for Foothill Estates is 0.006% or around \$2,600 in the estimated test year.

District general plant – Cal Water believed that due to the size of the contract, the district general plant allocation would be insignificant. However, upon review, the contract should receive a 0.3% allocation of general plant (under Cal Water's method of allocating

by relative customer count). This should be a \$4,900 plant allocation (of recorded 2006 general plant net of depreciation.)

(iii) While the ESP revenue sharing is calculated correctly based on the excess capacity decision (D.00-07-018), the Commission will soon rule on the disposition of this program in relation to A.06-07-017. Cal Water will comply with the Commission's decision in this matter.

Q 1.iii.b) Results of Operation and Prepared Testimony - Page 29. Explain your statement regarding Foothill Estates that, “No adjustment is made from general plant due to the insignificant nature of the contract.”

Response

Please see the response to (ii) above. Cal Water should have allocated approximately \$4,900 of general plant to this contract.

Q 2.i.a) Formal Application – Workpapers – WP 6 - A1a. You show a charge for Institutional Advertising. See D.96-12-074, 70 CPUC 2d 88, 135-6, quoted in D.03-09-021, disallowing allocation of such expense to ratepayers. For all of the districts at issue in this GRC, please identify any institutional Advertising expense charged to ratepayers, and either reallocate to shareholders to justify the current allocation.

### Response

D. 96-12-074 states and Cal Water quotes “*Reasonable marketing and advertising expenses are allowable for ratemaking. The key factor in determining recovery is whether a particular advertisement is institutional advertising and goodwill, to be paid for by the owners of the utility, or whether it benefits the ratepayers, whereby it should be an expense for ratemaking purposes. And since all advertising which has the utility’s name on it is to some extent institutional and promotes goodwill, we must assure ourselves that, even though advertising is directed to informing customers of services and assisting customers, it is not used to such extent that its promotion of goodwill obscures its promotion of ratepayer benefits.*”

The key provision in this passage is that the Commission must ensure that advertising “... *is not used to such extent that its promotion of goodwill obscures its promotion of ratepayer benefits.*” Cal Water believes its expenses for institutional advertising are within reasonable bounds. Cal Water’s test year estimate of total institutional advertising is less than \$0.05 per customer per year in seven of eight districts. Livermore proposes to spend \$0.08 per customer in the test year, exclusively on promotional items.

Most of the charges in the recorded period were for promotional items for open houses and conservation/community fairs (like sports bottles, pencils, and key chains). These functions benefit the ratepayers because they gives customers an opportunity to learn various aspects of water service (including water quality, water supply/conservation, and their water system). It also gives them an opportunity to interact with and get to know the employees who serve them.

Institutional Advertising Charges proposed by District

| District         | Estimated 799200<br>expenses, 2008-9 test<br>year (\$ in thousands) |
|------------------|---|
| Chico            | 0.6   |
| East Los Angeles | 0.9   |
| Livermore        | 1.4   |
| Los Altos        | 0.3   |
| Mid-Peninsula    | 0.7   |
| Salinas          | 1.2   |
| Stockton         | 0.7   |
| Visalia          | 1.0   |



Q 2.i.b) Formal Application – Workpapers – Wp6-B1. Stockton District; Dues and Donations. Why are charges for “Business Leadership Summit” (\$5,000) and “San Joaquin County/Dept of Public Works” (\$20,000) included in dues and donations, and why are they charged to ratepayers?

Response

The Business Leadership Summit charge in the amount of \$5,000 was inadvertently left in the expenses. This expense should not have been charged to the ratepayers and should be removed from the ratemaking basis for this expense.

The San Joaquin County/Dept of Public Works dues in the amount of \$20,000 is the membership fee for the North Eastern San Joaquin County Ground Water Banking Authority.

Cal Water Holds a Seat on the Board. The Group is comprised of the Cities of Stockton and Lodi, San Joaquin County and a few of the area Irrigation Districts.

This group was formed by San Joaquin County and is focused on protecting and enhancing the ground water basin. The basin in this area is not adjudicated, and all agencies must work cooperatively to ensure its sustainability. This effort must include both the Municipal users and the agricultural users.

An Integrated Regional Water Management Plan has been completed, and grant funding is now being sought. If successful, customers in the Stockton region will benefit greatly by this effort.

Q 2.i.c) Formal Application – Workpapers – Wp-8B1. You plan to retire several vehicles. Is retirement appropriate given the current durability of vehicles? See e.g., California Water Service Company, Stockton, 2007 Advance capital Budget, page 5 of 23 (proposing to replace vehicle with 34,000 miles on it). See also pages 12, 21 of 23.

Response

See response for No. 1 i.b. The vehicle with 34,000 miles on it is eight years old, meeting both the existing criteria and DRA's proposed vehicle replacement criteria from A.06-07-017.

Q 2.i.d) Formal Application – California Water Service Company, Stockton, 2007  
Advance Capital Budget, pages 5-7 of 23. You list a charge of \$1,053,000 to construct a new customer service center, and \$162,000 for furnishings for the center. Provide further justification of the need for a new customer service center. You seek \$648,000 to continue construction of a new customer service center. State where the Commission approved the initial construction, when construction started, and amounts expended to date. See also Stockton Carryover projects, showing a charge of \$68,000 for architectural design of the new customer service center.

Response

The justification for the project is contained in Tab 10 of the Project Justification book for the Stockton District, a copy of which is included with the overall response to the data request. The Commission has not as yet approved construction of the new customer service center, therefore Cal Water has chosen to wait until it can confirm the project will be included in rates before starting construction. The amounts expended through October 31, 2007 are \$31,975.50, primarily for the consultant to prepare the initial report on the options for the customer service center. This is noted in the attachment as a reference to this response for Cal Water PID 00015550. Also, see response in SRT-3 No. 2.ii.d.

Q 2.ii.a.1) Table of Contents Page 6. You request \$194,000 for furnishings for the new customer service center. See questions in (2)(i)(d).

Response

See the response in 2.i.d.

Q 2.ii.b) Tab 1 You state this project was the subject of a settlement with ORA. Did the settlement allow you to request the same amount in a subsequent GRC? Same question for Tabs 2, 3, 4, 5, 8 and 9. Are you seeking to carry out other projects in Stockton (or other districts) that were subject to settlement in an earlier GRC? If so, did the settlement provide simply for deferral of the project(s), or for foregoing the project(s) altogether? Explain.

#### Response

The ORA settlements simply covered what would be included in rates in the test year and first escalation year. No project sought in this GRC was previously rejected by DRA or the Commission on the merits of the project<sup>1</sup>. The settlement in A.04-09-028 did not direct that Cal Water permanently forego any project.

Cal Water is likely requesting funds from ratepayers for projects that were originally included in A.04-09-028. The settlement in that proceeding identified the amount of capital improvements to be included in rates in the 2005-6 test year or the 2006-7 escalation year. If the settlement did not include funds for those projects in rates, it did not dictate whether the project would be included in rates at a different time. As a background point, most differences between DRA and Cal Water plant estimates in past rate cases have dealt with the timing or cost of projects, not project merit.

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<sup>1</sup> Some vehicles and equipment requested in A.04-09-028 were not included in rates if the position requiring the vehicle or equipment was not included in the settlement.

Q 2.ii.c) Tab 6. You state that "The Stockton District has more leaks per mile of main than any other Cal Water District." Is there evidence of this fact, and can you explain why Stockton has this problem? How old is the "older unit" (Vacuum truck)?

Response

Stockton averages 0.4 leaks per mile of main per year. Other Cal Water Districts have a range of 0.05 to 0.2 leaks per mile of main per year. There are many factors than can contribute to main leaks. For example, soil conditions, pressure fluctuations, temperature changes related to environment creating soil expansion/contraction, water quality parameters, type of material and age of material. In Stockton, the primary factor would be the age of the mains. Please reference attachments 1,2 and 3 for 2.ii.c.

The older Vac-trailer was purchased in 2000 (PID#770). This is a much smaller unit than budgeted for 2007. The smaller unit is more suited for smaller service leaks, cleaning out valve cans and large meter vaults. The new unit is a larger capacity vehicle with the Vac-unit attached. The new vehicle is designed more specifically for main leaks.

Q 2.ii.d) Tab 10. This tab seeks \$1,215,000 for the new customer service center. How many employees will occupy this new center? Are you pursuing “Adaptive Re-Use of the existing station one building for a customer service facility” (scheme D), which is identified as an option “worthy of serious consideration”? If not, why not?

Response

There will be 26 District employees in the new customer service center - three management personnel, 13 Customer Service Representatives, five meter readers, three servicepersons, and two collectors. In addition, there will be four General Office employees with offices in the customer service center.

Cal Water will be using the existing building structure (referred to as Station 1 currently). Most of the construction will take place inside the structure, with moderate exterior work to the shell. Parking lot and landscaping modifications will also be required. Important aspects of using the existing structure are:

1. It is not used much currently and is available.
2. Cal Water does not lose the required parking space by building a new structure or adding onto the Field Operations Center building.
3. There is community support to beautify and use an older and somewhat historic structure.

Q 2.ii.e) Tab 11. The description states the contract has been awarded and work has already started. Is it permissible under Commission rules or precedent to seek funding for a project after the contract is awarded and the project work started? Cite the relevant authority for this position.

Response

Until your set of questions on this subject in this general rate case, Cal Water is not aware of any Commission interest in directly supervising all the capital projects undertaken by a water utility. Should your interest turn into policy, it would paralyze the capital improvement program of water utilities in direct contradiction of the Commission's Water Action Plan. That plan sets streamlined regulatory process and increased infrastructure investment as primary goals.

Cal Water and other utilities routinely sign construction contracts for capital projects that have not been directly identified in rates. As stated previously, the Commission does not routinely approve specific capital projects except in limited circumstances. The Commission approves rates for a projected future test year based on projected capital improvements, among other things.

The Commission is always free, in the course of its regulatory prerogative, to not include a particular capital improvement in the utility rate base. Such disallowance would be accompanied by a finding that the improvement was not in the public interest. Cal Water obviously takes this risk in undertaking a project without prior approval. However, Cal Water is confident that its improvements are in the public interest.



Q 2.ii.f) Tab 12. Page 3 identifies Cal Water's Continuous Improvement Process and Continuous Improvement Team. Provide a list of all the projects that have been identified as a part of this process by the team. Do any of the projects seek to save costs for ratepayers? If so, identify them.

Response

Cal Water's Continuous Improvement Process is a company-wide effort that all employees participate in. It has been in use at Cal Water for over ten years. Employees form continuous improvement teams to evaluate internal processes and propose cost-effective improvements to these processes. In that sense, all Continuous Improvement projects seek to save money for ratepayers.

There are no other Stockton Continuous Improvement projects that have resulted in capital projects in this rate case. The Jensen Yard project seeks to meet our operational needs. This project will increase our operational process efficiency & effectiveness, which will enhance our ability to serve our rate-paying customers. Cal Water has been notified by San Joaquin County and the City of Stockton that existing conditions of the facility must be corrected in order to comply with National Pollutant Discharge Elimination System (NPDES) & Storm Water requirements. Without improvements, the District faces penalties up to \$10,000 per/day if issued an official violation. Both agencies are willing to work with Cal Water, but Cal Water must show immediate and ongoing efforts to make the required modifications to the facility. In a meeting in 2006, Cal Water informed them that it had this project budgeted for 2007. Cal Water is currently in the design phase.

Q 2.ii.g) Tab 13. The Source Group, Inc. proposes a contract involving two days of work in the amount of \$20,594. This suggests they are being paid more than \$10,000 per day. This seems expensive; please explain the calculation.

Response

The high per day cost was primarily driven by the use of large proprietary equipment available only through the consulting firm. Please see the attachment for a detailed breakdown of the costs.

Q 2.ii.h) Tab 17. [PID 16821], see also Tab 18 [PID 16823]. The Cal Water – 2006 Inspection Memo recommends that Cal Water contact the San Joaquin County Department of Environmental Health and arrange a plan and schedule for destroying the abandoned wells. Has this occurred? Explain.

Response

Cal Water did not contact the San Joaquin County Department of Environmental Health (County) to arrange a well destruction plan and schedule since this project is for a well modification rather than a well destruction. The reference to the inspection memo is a reference to the procedure in the event that a well cannot be modified to reduce the arsenic level below 10ppb (parts per billion).

Q 2.ii.i) Tabs 21, 22, 24, 25, 26, 27, 33, 34, 35, 36 and 37. [PIDs: 16843, 16846, 16904, 16925, 17020, 17022, 16872, 17023, 17024, 17028 and 17048 respectively]. The need for these projects is not well documented. Supplement the record to better justify the proposed expenditures.

Response

See the enclosed documents that provide additional information/justification for the projects noted above.

Q 2.ii.j) Tab 28. [PID 17394] Has anyone traced the source of the TCE plume? Is any mitigation of the plume occurring? Explain.

Response

The Regional Water Quality Control Board was informed of the contamination, but they have not determined a responsible party. Clean-up/mitigation will not begin until a responsible party has been identified.

Q 2.iii.a) Page 24. Is the referenced Report on Unregulated Operations in the record? If so, state where, if not, please produce it.

Response

The Report on Unregulated Operations was provided to ALJ Thomas and DRA at the beginning of the proceeding. However, a copy is attached. The document was intended to respond to and comply with a settlement between Cal Water and ORA in connection with D.05-07-022.

Q 2.iii.b) Page 36. If the Water Supply and Facilities Master Plan referred to here is already in the record, indicate where. If it is not, please produce a copy.

Response

Stockton does not have a completed master plan at this time. Its completion is scheduled for early 2008.

Q 2.iii.c) Page 37. Why were some projects cancelled, and others re-budgeted in future years. Did the Commission authorize such action?

Response

Cal Water cancels projects that are no longer necessary. Cal Water “defers” projects to future years if a higher-priority project must be unexpectedly completed in a given year or if higher-priority project goes over budget. Cal Water’s capital project philosophy is to manage to the overall budget underlying rate recovery. Only if additional expenditures are required for important water supply, water quality, or safety needs, will Cal Water exceed its budget in a particular year.

Cal Water’s budget of capital improvements is its own. The Commission ratemaking process authorizes Cal Water a particular set of rates based on a projected revenue requirement for a future test year. Except where specifically ordered (such as in an advice letter), the Commission does not approve the company to construct an itemized list of capital projects at itemized costs. Doing so would be extremely shortsighted public policy because it would not allow the utility to respond to customer needs. Cal Water has an obligation to provide safe and reliable water service to its customers. The capital and expense needs to provide this service are constantly changing due to changes in costs, changes in regulations, and other unanticipated events. The Commission always has the opportunity to review the costs of facilities or any other aspect of the utility’s operation. Cal Water takes a risk in constructing facilities that were not presented to the Commission in its rate case budget, or in cancelling projects the Commission reviewed in its last GRC submission. The risk is that the Commission will review Cal Water’s rationale for the project changes and find that those changes were not in the public interest. In that case, the Commission would prospectively deny recovery of those costs in rates. However, Cal Water is confident that its management of capital improvements is in the public interest.



Q 2.iii.d) Page 43. The statement that “Cal Water cannot request recovery of an uncollected balance more than three years old” seems contradicted by the statement that “Cal Water requests to amortize this balance over two years....” Explain.

Response

Please see Cal Water’s response to question 5.ii.(c) of your September 25 ruling.

Q3. General Office

Formal Application – Workpapers (continued from First Ruling<sup>2</sup>  
filed September 11, 2007)

- (e) Were any of the new positions requested rejected/deferred in prior GRCs? If yes, provide a table showing the applicable positions, where they were rejected/deferred, and if rejected, your explanation for seeking them here.

Response: The Purchasing Department had an Intermediate Clerk position that was not included in the adopted settlement. Due to new insurance requirements, the Purchasing Department is requesting the Intermediate Clerk in this GRC. The clerk's primary responsibility will be to address insurance issues with district personnel and vendors. Also, Cal Water's contractor authorization program, which allows contractors to perform certain work without a purchase order, is being discontinued. As a result, that work must be covered under Cal Water's master service agreements within the individual districts. All vendors will be required to have a purchase order for work in progress. This requires additional personnel to handle the increase in requisitions.

In the prior GRC, the Administration Department requested three Staff Auditors that were not included in the adopted settlement. In this GRC, Cal Water is requesting a Senior Auditor position. As explained in the justification, Cal Water needs to increase its auditing staff to meet the demands of the Sarbanes Oxley Act, and minimize the work performed by external auditors.

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<sup>2</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

Administration requested a VP of Administration and Corporate Relations in the 2004 GRC. This was not included in the adopted settlement. In this GRC Administration is requesting a VP of Community and Governmental Relations. While similar, the requested position will focus on various state and local issues that affect our water supply, service delivery or other issues important to our customers.

Field Maintenance requested in the last GRC a number of personnel for a flushing program that were not included in the adopted settlement. As explained in the justification a pilot program was conducted and a different flushing program with different positions (Flushing Foremen) was recommended from that envisioned in the prior GRC.

Field Maintenance requested two Electrical Mechanical Technicians in the prior GRC that were not included in the adopted settlement. Cal Water in settlement agreed to defer these positions to the 2007 GRC.

Water Quality requested an Environmental Affairs Project Manager in the prior GRC that was not included in the adopted settlement. Cal Water in settlement agreed to defer this position to the 2007 GRC.

Q3. General Office

Formal Application – Workpapers (continued from First Ruling<sup>3</sup>  
filed September 11, 2007)

- (f) Provide a Cal Water organization chart for its General Office operations.

Response: The Organization chart for Cal Water's General Office is in the Adobe Acrobat file titled: "ALJ 3<sup>rd</sup> Ruling Q. 1f – CWS Org Chart.

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<sup>3</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

Q3. General Office

Formal Application – Workpapers (continued from First Ruling<sup>4</sup>  
filed September 11, 2007)

- (g) WP5-B2a, page 4 of 4. What is the result of Purchase Orders not being issued for all purchases? You state that "In 2004, without a formal process, we incurred additional audit fees." Why do you base your testimony on 2004 rather than a more recent period? Under "Cost Accountant" you state that "there are variances that need to be analyzed on a monthly basis to insure that the Company and our rate payers are paying the proper amount for its water production costs." Have any errors been discovered in ratepayer charges? If so, detail them.

Response: Purchase orders allow Accounting to track committed funds, match invoices presented to authorized purchases and receipts, and to estimate accruals for un-invoiced capital and expenses in accordance with generally accepted accounting principles. When they are not issued, there is a possibility of understating liabilities, CWIP, and expenses.

The testimony uses 2004 because that is the year Cal Water's external auditors, as part of their subsequent disbursement review, noted over \$6 million in invoices received were for work done in the audit year, but not recorded in Cal Water's liabilities at year-end. Because it was a significant amount, it required them to do additional testing that resulted in an additional expense to CWS.

Cost Accountant: Cal Water's presently has a position within the Rates Department to review and sign off on water production invoices. The annual expense of purchased water,

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<sup>4</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

pump taxes and electric power represent nearly 40% of total operating expenses for Cal Water. Timely payment of invoices avoids large late payment penalties. Some of the purchased water vendors apply large penalties for late filing of production reports in addition to late payment penalties, upwards of 10% of the monthly invoice amount. In the past, Accounting discovered errors in billing, and has requested corrections from the vendor. However, a Cost Account position is needed to be able to do a more thorough review of these large expense items. For example, there are over 1,300 power invoices received that need to be reviewed and approved.

Q3. General Office

Formal Application – Workpapers (continued from First Ruling<sup>5</sup>  
filed September 11, 2007)

- (h) WP5-B2b, page 2 of 3. Did the KPMG work you discuss in this document reveal any problems in the company's financial or regulatory reporting that affected ratepayers? If so, give details. Page 3 of 3.  
Produce the referenced audit report issued by KPMG.

Response: The KPMG work discussed did not reveal any problems in the company's financial or regulatory reporting that affected ratepayers.

The referenced audit report is part of Cal Water's Form 10-K report to the SEC for 2006. It is provided below.

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<sup>5</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file No. 1-13883

**CALIFORNIA WATER SERVICE GROUP**

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

77-0448994

(I.R.S. Employer  
Identification No.)

1720 North First Street, San Jose, California

(Address of Principal Executive Offices)

95112

(Zip Code)

(408) 367-8200

(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class:                     | Name of Each Exchange on which Registered: |
|--|--|
| Common Stock, \$0.01 par value per share | New York Stock Exchange                    |
| Preferred Share Purchase Rights          | New York Stock Exchange                    |

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the Registrant was \$646.7 million on June 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter. The valuation is based on the closing price of the registrant's common stock as traded on the New York Stock Exchange.

Common stock outstanding at March 6, 2007, — 20,656,699 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the California Water Service Group 2007 Annual Meeting are incorporated by reference into Part III hereof.



**Item 8. Financial Statements and Supplementary Data.**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
California Water Service Group:

We have audited the accompanying consolidated balance sheets of California Water Service Group and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the management of California Water Service Group. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of California Water Service Group and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the Consolidated Financial Statements, effective January 1, 2006, California Water Service Group adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*, and effective December 31, 2006, California Water Service Group adopted the initial funded status recognition and disclosure provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. In addition, California Water Service Group changed its method for quantifying errors in its financial statements in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of internal control over financial reporting of California Water Service Group and subsidiaries as of December 31, 2006, based on criteria established in *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Mountain View, California  
March 9, 2007

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
California Water Service Group

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that California Water Service Group and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of California Water Service Group is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the internal control over financial reporting of California Water Service Group and subsidiaries based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that California Water Service Group and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control — Integrated Framework*, issued by the COSO. Also, in our opinion, California Water Service Group and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control — Integrated Framework*, issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of California Water Service Group and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated March 9, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Mountain View, CA  
March 9, 2007

Q3. General Office

Formal Application – Workpapers (continued from First Ruling<sup>6</sup>  
filed September 11, 2007)

- (i) WP5-B2h, page 1 of 2. Explain the statement "The Company has not had a perfectly clean history regarding litigation" by identifying the litigation to which you refer, and the outcomes of that litigation. Page 2 of 2. You state that there are "unique risks to both the ratepayer and the stockholder." Are you allocating the cost of the requested position in part to shareholders? If not, explain. Did the Transit Casualty Company insolvency have any impact on Cal Water?

Response: Please see copies of pages 25 & 71 of the 2006 10K (below) and page 30 of the August 8, 2007, 10Q (below), which discuss the recent asbestos liability and Chico plume suits.

Are you allocating the cost of the requested position in part to shareholders? No, it is not Cal Water's intent to allocate this position. The risks discussed are related to geographic diversity and the burden of adequately assessing risk at 24 separate districts scattered through out the state. The driving force behind the individual district risk assessments is to ensure that risks are properly mitigated, thereby ensuring a secure and safe water supply for the ratepayers. While those risks to shareholders are of a financial nature that would result if the Company was not able to meet this obligation to the ratepayers, but those risks simply flow from those of the ratepayer.

Did the Transit Casualty Company insolvency have any impact on Cal Water? No

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<sup>6</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

Page 25 of the 2006 10K:

**Item 3. Legal Proceedings.**

On October 26, 2006, we were served with a complaint in Superior Court County of Los Angeles Case No. BC360406 for personal injury, along with other defendants, due to exposure to asbestos. The plaintiff claims to have worked for three of our contractors on pipeline projects for the period 1958–1999 and Palos Verdes Water Company, a water utility acquired by us in 1970. The plaintiff alleges that we and other defendants are responsible for his asbestos related injuries. A trial date has been set for May 14, 2007. The plaintiff is seeking damages in the amount of \$27.5 million. Our insurance carrier has accepted the defense of the claim, reserving certain rights along with one of the contractor's insurance company. We do not believe that we have any liability regarding this claim and have not recorded any liability associated with the claim.

From time to time, we are involved in various disputes and litigation matters that arise in the ordinary course of business. Periodically, we review the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount or the range of loss can be estimated, we accrue a liability for the estimated loss in accordance with SFAS No 5, "Accounting for Contingencies." Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims and litigation matters and may revise estimates.

While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe that the ultimate resolution of these matters will materially affect our financial position, results of operations, or cash flows.

Page 71 of the 2006 10K:

*Contingencies* In 1995, the State of California's Department of Toxic Substances Control (DTSC) named us as a potential responsible party for cleanup of a toxic contamination plume in the Chico groundwater. The toxic spill occurred when cleaning solvents, which were discharged into the city's sewer system by local dry cleaners, leaked into the underground water supply. The DTSC contends that our responsibility stems from our operation of wells in the surrounding vicinity that caused the contamination plume to spread. While we are cooperating with the clean up, we deny any responsibility for the contamination or the resulting cleanup.

In December 2002, we were named along with other defendants in two lawsuits filed by DTSC for the cleanup of the plume. The suits assert that the defendants are jointly and severally liable for the estimated cleanup of \$8,700. The parties have undertaken settlement negotiations. If the parties finalize a written settlement agreement, it must then be approved by the court. In connection with these suits, our insurance carrier has filed a separate lawsuit against us for reimbursement of past defense costs which approximate \$1,000. We believe that the insurance carrier has a duty to defend and is not entitled to any defense cost reimbursement. Furthermore, we believe that insurance coverage exists for this claim. Consequently, we have filed a number of pre-trial motions to dismiss the lawsuit. However, if our claim is ultimately found to be excludable under insurance policies, we may have to pay damages. We can give no assurance that we will be able to recover amounts paid for damages through rates.

In December of 2006, Cal Water filed an application to allow it to recover additional funding associated with its postretirement benefit other than pensions (PBOP) or retiree healthcare plan that has been recorded as a regulatory asset. As of December 31, 2006, the regulatory asset was approximately \$9.8 million. In February 2007, the Division of Rate Payer Advocates (DRA) filed its protest to our PBOP application. The DRA further noted that prior to their protest, the parties met several times to discuss the Company's application. During the discussions it became apparent to the DRA that negotiations would extend beyond the deadline for filing their protest. The DRA further noted that subsequent to this filing, the parties will continue their discussions to achieve a settlement that is reasonable, consistent with the law, and in the public interest. While the DRA has filed its protest, the ultimate outcome will be determined by the CPUC. Cal Water believes that the CPUC will recognize in rates the recovery of the regulatory asset and the additional funding of the plan. If the CPUC does not permit the Company to recover the full amount of its regulatory asset, the regulatory asset, to the extent not allowed in recovery, will be written off.

The Company is involved in other proceedings or litigation arising in the ordinary course of operations. The Company believes the ultimate resolution of such matters will not materially affect its financial position, results of operations or cash flows.

## Pages 30 and 31 of the August 8<sup>th</sup> 2007 10Q:

### LEGAL PROCEEDINGS

As previously reported, the Company was served with a complaint in Superior Court County of Los Angeles Case No. BC360406 for personal injury, along with other defendants, due to exposure to asbestos. The plaintiff claims to have worked for three of the Company's contractors on pipeline projects for the period 1958-1999 including Palos Verdes Water Company, a water utility acquired by us in 1970. The plaintiff alleges that the Company and other defendants are responsible for his asbestos related injuries. On April 20, 2007, the Court sustained the Company's demur without leave to amend all Plaintiff's claims alleging products liability and intentional torts. The Court also sustained the Company's demur with leave to amend on Plaintiff's claim for premise owner contractor liability, a negligence claim, alleging misconduct that may allow for punitive damages (Premise/Owner Claim), and the Court severed the Company from the accelerated trial with other named defendants. On July 3, 2007, the Court sustained the Company's demur with leave to amend on the Plaintiff's third amended complaint alleging the Premise/Owner Claim. Plaintiff has filed a fourth amended complaint restating the Premise/Owner Claim. The Company still believes that the plaintiff has failed to allege a legal claim against the Company, and the Company accordingly intends to file another demur and motions to aggressively defend itself. The Company's insurance carrier has accepted the defense of the claim, reserving certain rights along with one of the contractor's insurance company. We do not believe that the Company has any liability regarding this claim, but if the Company is found liable, any liability would probably be paid by the insurance companies. Accordingly, the Company has not recorded any liability associated with the claim.

On May 30, 2007, the Company was served with a complaint in Superior Court County of San Francisco Case No. CGC-07-274213 for personal injury, along with other defendants, due to exposure to asbestos. The plaintiffs, Company's contractor employee (Contractor Employee) and his wife claim the Company and other defendants are responsible for Contractor Employee's asbestos related injuries alleged due to product liability and negligence while Contractor Employee worked for an underground pipeline contractor. The complaint seeks unspecified general and punitive damages.

The Company believes that plaintiffs have failed to allege a legal claim against the Company, and the Company has filed a demur and motions to aggressively defend itself. The Company has tendered the claim to its insurance carrier and intends to tender the claim to any contractor under contractual indemnification provision, once specifics of the claim are determined. We do not believe that the Company has any liability regarding this claim, but if the Company is found liable, any damages would probably be paid by insurance companies. Accordingly, the Company has not recorded any liability associated with the claim.

From time to time, we are involved in various disputes and litigation matters that arise in the ordinary course of business. Periodically, we review the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount or the range of loss can be estimated, we accrue a liability for the estimated loss in accordance with SFAS No 5, "Accounting for Contingencies." Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims and litigation matters and may revise estimates.

While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe that the ultimate resolution of these matters will materially affect our financial position, results of operations, or cash flows.

Q3. General Office

Formal Application – Workpapers (continued from First Ruling<sup>7</sup>  
filed September 11, 2007)

- (j) WP5-B2i, page 2 of 3. What are the 28 internal controls deemed to be deficient, and the seven significant deficiencies?

Response: See Excel spreadsheet titled: “ALJ 3<sup>rd</sup> Ruling Q. 1j – 2006 SOX Deficiencies Please note that deficiencies 06-16 and 06-17 combined into one single significant deficiency.  
Did any deficiency impact ratepayers? If so, explain.

Response: Not yet. However, the severity of uncorrected deficiencies increases with time, escalating annually from inconsequential, to significant, to material weakness. Therefore, uncorrected significant deficiencies from the prior year will result in a material weakness. Under the Public Company Accounting Oversight Board’s Auditing Standard #5, Cal Water’s external auditors would have to issue an adverse audit opinion if a single material weakness is deemed to exist. The result of the material weakness and the adverse audit opinion would be a plunge in the Company’s stock price, a significant drop in our credit rating, and consequently a higher cost of capital that ultimately affects ratepayers.

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<sup>7</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company’s 2007 General Rate Case (First Ruling), filed September 11, 2007.*

Q3. General Office

Formal Application – Workpapers (continued from First Ruling<sup>8</sup>  
filed September 11, 2007)

- (k) WP5-B2k, page 1 of 2. You state that the Company's number of customers has increased from 425,700 to 443,500 (a 4.2% increase over the past 5 years). On page WP5-B2j, you state the increase to be 436,700 to 460,900 (a 6% increase over the past 5 years). Which is correct?

Response: The 4.2% increase is the correct number.

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<sup>8</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*



Q3. General Office

Formal Application – Workpapers (continued from First Ruling<sup>9</sup>  
filed September 11, 2007)

- (l) WP5-B2l, page 1 of 2. Of the responsibilities listed for this job,  
which benefit ratepayers?

Response: The intent of the position is to ensure complete and effective  
communication of all water related issues to the ratepayers. As  
such, it is Cal Water's opinion that all the responsibilities of  
this position benefit its ratepayers.

If some do not, explain how/whether you are planning to allocate part of  
the cost of this position to shareholders.

Response: There is no disallowable time allocation associated with  
filing this position. It is not anticipated that this position  
will be used for lobbying or corporate imaging, but rather  
focusing on various state and local issues that affect our  
water supply, service delivery or other issues important to  
our customers.

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<sup>9</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California  
Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

Q3. General Office

Formal Application – Workpapers (continued from First  
Ruling<sup>10</sup> filed September 11, 2007)

(m) WP5-B2m, page 1 of 2. Of the responsibilities listed for this job, which benefit ratepayers? If some do not, explain how/whether you are planning to allocate part of the cost of this position to shareholders.

Response: The two positions requested (communications specialist—already hired and the emergency communications specialist) both work exclusively on ratepayer-related communications.

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<sup>10</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

Q3. General Office

Formal Application – Workpapers (continued from First Ruling<sup>11</sup> filed September 11, 2007)

- (n) WP5-B2n, page 1 of 5. How do you currently handle emergencies? (Note that First Ruling asked another question about the 24-hour call center.)

Response: The following is a general description as to the manner in which Cal Water responds to emergencies since the response varies greatly

Emergencies are basically classified as events that need the immediate attention of Cal Water. Examples of emergencies are mainline leaks, sheared fire hydrants, power outages affecting supply/storage and water quality issues to name a few. Reaction to the emergency depends on the time of day and day of the week the emergency occurs in addition to the overall size and severity of the emergency. If it is during normal business hours, the call initially comes into the specific district office where it is routed to the appropriate Cal Water personnel for evaluation as to what is required as far as personnel and equipment to respond. Outside contractors, General Office personnel and the media may be required depending upon the severity of the emergency. For water quality calls, Cal Water's goal is to respond in one hour or less.

If the emergency takes place outside of the normal business hours, including weekends and holidays, the call comes into either an outside answering service or directly to Cal Water for those districts that maintain 24/7 personnel to answer the

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<sup>11</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

phones. If it comes into an answering service, the information is forwarded to the Cal Water supervisor on call for that district that week. The supervisor evaluates the emergency and requests assistance from other Cal Water personnel as needed. For those districts that have their own personnel answering the telephone after hours, the on-call supervisor is contacted by a Cal Water employee. The supervisor evaluates the emergency and requests assistance from other Cal Water personnel as needed. Outside contractors, General Office personnel and the media may be required depending upon the severity of the emergency. For water quality calls, Cal Water's goal is to respond in one hour or less.

Q3. General Office

Formal Application – Workpapers (continued from First Ruling<sup>12</sup> filed September 11, 2007)

- (o) WP5-B2p, page 1 of 2. Do you have in summary form data showing that the number of projects has tripled from what it was ten years ago, and doubled in the last five years. If so, please produce this data.

Response: The Torrance Engineering group has only been in existence since the Dominguez merger in May of 2000. The statement made in the position description is a general statement meant to be applicable to the overall number of projects assigned to engineering from the capital budget over the last five to ten years. Cal Water does not have a log of the specific number of projects ten years ago, but could provide a number for the last five years if needed. The Torrance Engineering group has responsibility for the East Los Angeles, Rancho Dominguez (Palos Verdes, Hermosa-Redondo and Dominguez), Westlake, Antelope Valley, Kern River Valley and some of the Bakersfield District capital projects. One can assume without compiling actual numbers that as the overall number of capital projects increases, those assigned to engineering, both General Office and the Torrance Group will increase as well.

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<sup>12</sup> First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.

Q3. General Office

Formal Application – Workpapers (continued from First

Ruling<sup>13</sup> filed September 11, 2007)

- (p) WP5-B2q, page 1 of 2. List all Water Supply and Facility Master Plans you have prepared for your water districts (including the General Office Allocation districts). You show a trend in capital projects as follows; provide a comparable figure for your 2007 request: "Cal Water had 1,187 approved capital projects in the 2003 budget, 1,480 in 2004, 1,584 in 2005 and 1,593 in 2006."

Response: Below is a list of the status of all water supply and facility master plans.

**California Water Service Company  
by District**

| <b>District</b>      | <b>Status of Water Supply &amp; Facility Master Plan</b>                             |
|----------------------|--|
| Antelope Valley      | Scheduled for 2008   |
| Bakersfield          | Master Plan is currently underway; Scheduled completion June 2008                    |
| Bear Gulch           | Master Plan is currently underway; Scheduled completion March 2008                   |
| Chico-Hamilton       | Master Plan is currently in Draft Version review; Scheduled completion December 2007 |
| Dixon                | Scheduled for 2008   |
| Dominguez            | Master Plan is currently underway; Scheduled completion January 2009                 |
| East Los Angeles     | Master Plan finished October 2007  |
| Hermosa Redondo      | Master Plan is currently underway; Scheduled completion January 2009                 |
| Kern River Valley    | Scheduled for 2008   |
| King City            | Master Plan is currently underway; Scheduled completion March 2008                   |
| Livermore            | Master Plan finished March 2007  |
| Los Altos - Suburban | Master Plan finished October 2003  |
| Marysville           | Scheduled for 2008   |
| Mid-Peninsula        | Master Plan is currently in Draft Version review; Scheduled completion November 2008 |
| Oroville             | Scheduled for 2008   |
| Palos Verdes         | Master Plan is currently underway; Scheduled completion January 2009                 |
| Redwood Valley       | Scheduled for 2008   |
| Salinas              | Master Plan finished April 2005; Long Term Water Supply Plan currently underway      |
| Selma                | Master Plan is currently in Draft Version review; Scheduled completion November 2008 |
| South San Francisco  | Master Plan finished June 2003   |
| Stockton             | Master Plan is currently underway; Scheduled completion early 2008                   |
| Visalia              | Master Plan finished February 2005   |
| Westlake             | Scheduled for 2008   |
| Willows              | Scheduled for 2008   |
| Company Total        | Completed = 6<br>Underway = 10<br>Schedule to Start = 8                              |

<sup>13</sup> First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.

Cal Water cannot validate the statement "Cal Water had 1,187 approved capital projects in the 2003 budget, 1,480 in 2004, 1,584 in 2005 and 1,593 in 2006." Consequently, this statement should be disregarded. Cal Water cannot determine what the basis for this count is, so it cannot provide a 2007 figure.

Q3. General Office

Formal Application – Workpapers (continued from First  
Ruling<sup>14</sup> filed September 11, 2007)

- (q) WP5-B2t, page 1 of 2. List all capital projects not completed by  
CWS due to lack of manpower, and their budgets.

Response: WP5-B2t is the workpaper page that contains the justification for  
the Electrical (SCADA) Technician. Below is a list of SCADA  
Projects that were not timely completed by CWS due to lack of  
manpower and their estimated cost referenced in the work  
papers.

Cal Water cannot readily provide a list of all capital projects  
not completed by it due to a lack of manpower. This is because  
Cal Water's annual project count does not identify late projects  
thereby requiring manual review of each item submitted in  
PeopleSoft in a given year to determine if it was not completed  
on time.

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<sup>14</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California  
Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*



|      |                     |         |              |            |                               | 4/25/2007 |                |                    |             |
|------|---------------------|---------|--------------|------------|-------------------------------|-----------|----------------|--------------------|-------------|
|      | District            | Account | Dept. Number | Project ID | Project title                 | Estimate  | Actual to Date | Status             |             |
| 2002 | Palos Verdes        | 103000  | 122          | 5816       | Replace 5 RTUs                | \$100,000 | \$58,243       | open               | \$41,757    |
| 2004 | Bakersfield         | 103000  | 101          | 9030       | Install 6 SCADA RTUs          | \$132,300 | \$64,336       | open               | \$67,964    |
|      | Palos Verdes        | 103000  | 122          | 7919       | Replace RTUs                  | \$103,000 | \$37,288       | open               | \$65,712    |
| 2005 | Bakersfield         | 103000  | 101          | 9031       | install 6 RTUs                | \$132,000 | \$184,819      | open               | \$0         |
|      | Chico               | 103000  | 104          | 11256      | Install RTUs                  | \$225,000 | \$316,882      | open               | \$0         |
|      | Kern River          | 103000  | 134          | 7069       | Install Backbone SCADA        | \$108,000 | \$0            | open               | \$108,000   |
|      | Livermore           | 103000  | 110          | 11057      | Station 23 SCADA              | \$64,800  | \$72,284       | open               | \$0         |
|      | Redwood Valley      | 103000  | 146          | 12463      | Noel SCADA RTU                | \$24,900  | \$10,878       | open               | \$14,022    |
|      | Salinas             | 103000  | 114          | 11254      | SCADA RTUs                    | \$225,000 | \$232,257      | open               | \$0         |
|      | Selma               | 103000  | 117          | 12567      | Install SCADA Phase 1         | \$100,000 | \$64,467       | open               | \$35,533    |
|      | Stockton            | 103000  | 119          | 11249      | SCADA Various Locations       | \$300,000 | \$252,135      | open               | \$47,865    |
|      | Willows             | 103000  | 121          | 12568      | Install SCADA System          | \$50,000  | \$46,695       | open               | \$3,305     |
| 2006 | Hermoso Redondo     | 103000  | 108          | 12941      | Install RTUs at three wells   | \$81,000  | \$26,818       | open               | \$54,182    |
|      | LosAltos Suburban   | 103000  | 111          | 10416      | Install SCADA 27, 20, 18 & 4  | \$101,300 | \$125,000      | open               | \$0         |
|      | Salinas             | 103000  | 114          | 11255      | SCADA RTU                     | \$225,000 | \$3,693        | open               | \$221,307   |
|      | Salinas             | 103000  | 114          | 15819      | Large Display for SCADA       | \$13,844  | \$20,585       | Complete           | \$0         |
|      | South San Francisco | 103000  | 118          | 11377      | Install RTU at St. 7          | \$23,900  | \$5,618        | Complete           | \$0         |
|      | Visalia             | 103000  | 120          | 11253      | RTU Installation              | \$300,000 | \$164,184      | open               | \$135,816   |
|      | G.O. SCADA          | 103000  | 385          | P.O. 3357  | SPT-4 Mods for Scadapack etc. | \$17,500  | \$0            | open               | \$17,500    |
| 2007 | Bakersfield         | 103000  | 101          | 16114      | SCADA R2 Software             | \$12,900  | \$0            | open               | \$12,900    |
|      | Bakersfield         | 103000  | 101          | 18551      | Replace SCADA Server          | \$24,529  | \$0            | Initiated          | \$0         |
|      | Bayshore            | 103000  | 152          | 18213      | Replace SSF SCADA Server      | \$4,384   | \$0            | open               | \$4,384     |
|      | Bayshore            | 103000  | 152          | 18214      | Replace MPS SCADA Server      | \$8,640   | \$0            | open               | \$8,640     |
|      | Bear Gulch          | 103000  | 102          | 16111      | SCADA R2 Software             | \$12,900  | \$0            | open               | \$12,900    |
|      | Bear Gulch          | 103000  | 102          | 17980      | Replace SCADA Server          | \$12,772  | \$0            | Open               | \$12,772    |
|      | Chico               | 103000  | 104          | 18552      | Replace SCADA Server          | \$18,449  | \$0            | Initiated          | \$0         |
|      | Commerce            |         | 251          | 18481      | Upgrade SCADA Software        | \$8,000   | \$0            | Initiated          | \$0         |
|      | Dixon               | 103000  | 105          | 15148      | Replace PanelBoard Station 1  | \$77,500  | \$0            | open               | \$77,500    |
|      | Dixon               | 103000  | 105          | 15150      | Flowmeters at                 | \$64,800  | \$23,447       | open               | \$41,353    |
|      | Dixon               | 103000  | 105          | 16112      | SCADA Release 2 software      | \$12,900  | \$19,694       | Complete           | \$0         |
|      | Dixon               | 103000  | 105          | 17974      | Replace SCADA Server          | \$12,772  | \$13,422       | Complete           | \$0         |
|      | Dixon               | 103000  | 105          | 18597      | Replace UPS                   | \$3,595   | \$2,500        | Open               | \$1,095     |
|      | Hermoso Redondo     | 103000  | 108          | 18188      | SCADA RTUs                    | \$25,610  | \$0            | Initiated          | \$0         |
|      | Livermore           | 103000  | 110          | 16086      | Install RTU at Station 11     | 24300     | \$0            | open               | \$24,300    |
|      | Livermore           | 103000  | 110          | 16103      | SCADA Release 2 software      | \$12,900  | \$35,250       | Complete           | \$0         |
|      | Livermore           | 103000  | 110          | 17975      | Replace SCADA Server          | \$12,772  | \$18,753       | Complete           | \$0         |
|      | Los Altos Suburban  | 103000  | 111          | 18518      | SCADA Release 2 software      | \$13,536  | \$0            | Open               | \$13,536    |
|      | Los Altos Suburban  | 103000  | 111          | 18520      | Replace SCADA Server          | \$13,793  | \$0            | Open               | \$13,793    |
|      | Marysville          | 103000  | 112          | 16108      | SCADA Release 2 software      | \$12,900  | \$20,318       | Complete           | \$0         |
|      | Marysville          | 103000  | 112          | 17976      | Replace SCADA Server          | \$14,070  | \$21,614       | Complete           | \$0         |
|      | Mid Peninsula       | 103000  | 116          | 16109      | SCADA Release 2 software      | \$12,900  | \$0            | open               | \$12,900    |
|      | Mid Peninsula       | 103000  | 116          | 18214      | Replace SCADA Server          | \$9,607   | \$0            | open               | \$9,607     |
|      | Mid Peninsula       | 103000  | 116          | 17995      | RTU Replacement               | \$14,000  | \$399          | proposed           | \$0         |
|      | Palos Verdes        | 103000  | 122          | 16113      | SCADA Release 2 software      | \$12,900  | \$3,523        | open               | \$9,377     |
|      | Palos Verdes        | 103000  | 122          | 17279      | Reconfigure SCADA Servers     | \$8,035   | \$3,764        | Complete           | \$0         |
|      | Palos Verdes        | 103000  | 122          | 18187      | Replace 6 SCADA RTUs          | \$49,062  | \$0            | open               | \$49,062    |
|      | Rancho Dominguez    | 103000  | 151          | 17979      | Replace SCADA Server          | \$12,772  | \$0            | open               | \$12,772    |
|      | Salinas             | 103000  | 114          | 18210      | Replace SCADA Server          | \$12,772  | \$0            | open               | \$12,772    |
|      | South San Francisco | 103000  | 118          | 16106      | SCADA Release 2 software      | \$12,900  | \$0            | open               | \$12,900    |
|      | South San Francisco | 103000  | 118          | 18213      | Replace SCADA Server          | \$5,011   | \$0            | open               | \$5,011     |
|      | Stockton            | 103000  | 119          | 11250      | Install 20 RTUs               | \$300,000 | \$0            | open               | \$300,000   |
|      | Stockton            | 103000  | 119          | 18553      | Replace SCADA Server          | \$18,449  | \$0            | Initiated          | \$0         |
|      | Visalia             | 103000  | 120          | 18554      | Replace SCADA Server          | \$18,449  | \$0            | Initiated          | \$0         |
|      | Westlake            | 103000  | 123          | 16093      | Install RTU at collegas       | \$17,900  | \$0            | open               | \$17,900    |
|      | Westlake            | 103000  | 123          | 16100      | SCADA Release 2 software      | \$12,900  | \$0            | open               | \$12,900    |
|      | Westlake            | 103000  | 123          | 17977      | Replace SCADA Server          | \$12,772  | \$0            | open               | \$12,772    |
|      | G.O. SCADA          | 103000  | 330          | 16098      | SCADA HP Protocol             | \$8,000   | \$0            | Cancelled          | \$0         |
|      | G.O. SCADA          | 103000  | 385          | 17272      | APC & alarmPage changes       | \$12,355  | \$8,696        | open               | \$3,660     |
|      | G.O. SCADA          | 103000  | 330          | 17276      | SCADA Office computers        | \$9,577   | \$15,996       | open               | \$0         |
|      | G.O. SCADA          | 103000  | 385          | 16097      | SCADA Network Security        | \$84,900  | \$0            | cancelled          | \$0         |
|      | G.O. SCADA          | 103000  | 385          | 18359      | SCADA Firewall - Install      | \$28,360  | \$47,416       | Complete           | \$0         |
|      | G.O. SCADA          | 103000  | 385          | 16099      | Communications test equipment | \$45,400  | \$0            | cancelled          | \$0         |
|      |                     |         |              |            |                               |           |                | Initiated Projects | \$113,485   |
|      |                     |         |              |            |                               |           |                | Open Projects      | \$3,032,347 |
|      |                     |         |              |            |                               |           |                | Total Backlog      | \$3,145,833 |

Q3. General Office

Formal Application – Workpapers (continued from First  
Ruling<sup>15</sup> filed September 11, 2007)

- (r) WP5-B2v, page 1 of 4. You state you have 25 water systems. WP5-B2ad, page 1 of 8, says 27. Which is the correct figure?

Response: There are twenty-seven (27) separate water systems in Cal Water's Geographic Information System (GIS). This count included GIS systems for the City of Bakersfield and Hawthorne which are not owned by Cal Water (unregulated). They should have been excluded. The correct count is 25 GIS systems. This count includes two GIS systems in Cal Water's Mid Peninsula District (San Mateo and San Carlos). Cal Water has 24 districts in California that the CPUC sets rates for.

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<sup>15</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

Q3. General Office

Formal Application – Workpapers (continued from First  
Ruling<sup>16</sup> filed September 11, 2007)

- (s) WP5-B2x, page 2 of 3. You state in several places, including here, that your employees cannot be borrowed because they have no time to spare. Where in the company do you have excess capacity, where employees are, in your view, available to work on unregulated projects (e.g., ESP)? Give details.

Response: Cal Water can not currently find other instances of the use of this language. The reference to employees that “cannot be borrowed” relates to the engineering design group. Cal Water does not contend that this group has any excess capacity. All engineering charges are fully-allocated to unregulated contracts.

Regarding the unrelated question of excess capacity for employees, Cal Water points out that salaried employees are on staff to meet customer needs in a responsible and timely manner. Apart from temporary help and overtime, employee time can be unitized only to annual complement. Since the complement should be sized to meet customer needs, there may be excess capacity a) due to customer needs not exactly matching available complement hours, or b) due to the incidental nature of the additional work. Cal Water uses seasonal temporary help to perform peaking and vacation-relief work in some instances. Overtime is intended for use with after-hours call-outs. Routine overtime use to make up work is discouraged.

For particular classes of employees, Cal Water views the excess capacity as follows:

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<sup>16</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

Field operators: Incidental excess capacity may be available depending on the magnitude of the contracted service. However, all field employees direct-charge time to the activity they are performing (including ESP work).

Customer service representatives: Incidental excess capacity may be available depending on the magnitude of the contracted service. Customer service representatives do not direct charge. However, districts with large contracts allocate customer service time to contracts.

Management: Incidental excess capacity may be available depending on the magnitude of the contracted service. District management personnel do not direct charge. However, districts with large contracts allocate management time to contracts.

### Q3. General Office

Formal Application – Workpapers (continued from First Ruling<sup>17</sup> filed September 11, 2007)

- (t) WP5-B2ae, page 2 of 9. You assume that Title 22, Section 64449.5 of the California Code of Regulations requires flushing. Without referring to other materials, my reading of the statute indicates that flushing is one form of determining physical water quality. Explain your position that flushing is required by the regulation. Do you have material from DHS or other sources indicating flushing is required by the foregoing provision? If so, please produce it.

Response: The Department of Public Health recognizes that flushing water mains will improve water quality in water distribution systems. Section 64449.5 of the California Code of Regulations, part (d) states: "The distribution system water of public water systems shall be free from significant amounts of

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<sup>17</sup> First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.

particulate matter." Part (d) implicitly calls for flushing since it is the only way to remove particulates from a distribution system. Additionally, a regular Flushing Program helps to maintain the cleanliness of the distribution mains.

Further, uni-directional flushing is specifically called for by the CA DPH. The Permit Amendment for Domestic Water Supply Permit No. 68-41 for the CWS Los Altos-Suburban District contains conditions that are part of a flushing program. The first, in Section 2e)3 is the condition that Cal Water in its district operational plan include a "Discussion on the uni-directional flushing program implemented by the water system, which would address routine problem areas, low flow areas and dead ends." The second condition in Section 2e)4 requires a "discussion on the valve maintenance and exercise program implemented by the water system and the operation and control of the valves to make hydraulic changes to increase circulation in the distribution system." Cal Water interprets this to mean that it has a flushing program and they provide an explanation of how it addresses routine problem areas, low flow areas and dead ends.

The DHS Engineering Report accompanying the Permit Amendment recognizes the need for a flushing program where it states:

"In order to control nitrification problems in the distribution system arising from (sic) the use of chloramines as a disinfectant, the District needs to implement the UDF program on a regular and system-wide basis to ensure regular turnover in the distribution system (leading to decreased distribution system

residence times) and reduce detention time in low flow areas. Flushing increases the water velocity within pipelines to remove sediments and biofilms that would otherwise harbor nitrifying bacteria. A special flushing program to routinely address problem areas (areas prone to customer complaints) and a dead-end flushing program must be an integral part of the above UDF program. Based on the analysis of the results obtained from the distribution system monitoring program (See Item 3 below.) flushing in these problem areas and dead-ends can be performed as often as needed (e.g. weekly, biweekly, or monthly) to improve residual and water quality.”

Virtually all large water utilities have a flushing program to maintain the cleanliness of the distribution mains. Ratepayers benefit from cleaner water and less sediment in their water system.

Q3. General Office

Formal Application – Workpapers (continued from First  
Ruling<sup>18</sup> filed September 11, 2007)

- (u) WP5-B2af, page 2 of 4. Have you discovered metering errors resulting in thousands of dollars of lost revenue per meter per month? Describe.

Response: Below are examples where meters not functioning properly resulted in lost revenue.

11/01/05- The Traveling Meter Mechanic (TMM) performed maintenance on the 8” meter for Scottsdale Home Owners Association, meter #05201975. The TMM found the high flow side of the meter was stuck. After being repaired, the billing units increased the next month by approximately 62 (6,200 Ccf), which equates to \$10,230 additional revenue.

10/31/06- The TMM performed a routine test on the 10” meter for Tosco Refinery, meter #1280376. The TMM found the low flow side of the meter was stuck. After repair, the average monthly billed consumption increased by 2,700 Ccf, which equates to \$4,455 additional revenue per month.

2/09/07- The TMM performed a routine test on the 8” meter for Chadwick School, meter #91021499. The test indicates the meter was under-registering. After recalibration by the TMM, the subsequent average monthly billing for this meter increased by 1,300

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<sup>18</sup> First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.

Ccf, which equates to additional billed revenue of \$2,145 per month.



Q3. General Office

Formal Application – Workpapers (continued from First Ruling<sup>19</sup> filed September 11, 2007)

- (v) WP5-B2ah, page 3 of 3. This document lists employees eligible to retire in 2009, but several of them are recent hires. Are those hires actually eligible to retire? Further, have you polled the employees to assess retirement plans? Give details.

Response: Employees are eligible to retire when they are 55 years old and have completed five years of service or are 65 years old. It is difficult to anticipate how many employees will retire. The Company requests employees to give a minimum of three months notice in writing when they are planning to retire. The actual notices range from nine months to less than one month's notice. It is neither lawful nor appropriate to ask people of retirement age when they are planning to retire – Cal Water can only encourage them to give it sufficient notice to complete the paperwork on a timely basis and allow Cal Water sufficient time to hire and train a replacement.

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<sup>19</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

Q3. General Office

Formal Application – Workpapers (continued from First  
Ruling<sup>20</sup> filed September 11, 2007)

- (w) WP5-B2ak, page 1 of 9. When you proposed funding for the Safety Trainer to be hired in 2007, did you state that this employee would take care of ½ of the training program? Explain.

Response: Operations plans to expand the Safety Department by two Safety Trainers to meet the training requirements needed to comply with existing regulations. One Safety Trainer, to be hired in 2007, would be responsible for half of the needed safety training. The second Safety Trainer, to be hired in 2008, would pick up the remaining half of the needed safety training.

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<sup>20</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

Q3. General Office

Formal Application – Workpapers (continued from First

Ruling<sup>21</sup> filed September 11, 2007)

- (x) WP5-B2am, page 2 of 10. You state, "Currently Cal Water is at 6%." Does this 6% apply to the 15% for minority, 5% for women or 1.5% of disabled owned enterprises? Explain.

Response: As of 9/31/2007, Cal Water's total diversity supplier percentage is 10%. Cal Water currently does not provide a breakdown of percentages by category but will do so commencing in 2008.

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<sup>21</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

Q3. General Office

Formal Application – Workpapers (continued from First  
Ruling<sup>22</sup> filed September 11, 2007)

- (y) WP5-B2an, page 1 of 2. You state that under Sarbanes Oxley, "preferred vendor status is no longer the norm." Many of your districts have blanket contracts for capital projects. Are you now rebidding these contracts in compliance with Sarbanes Oxley? Explain.

Response: The blanket contracts for capital projects are rebid every four years on a staggered basis so they all do not become due at the same time. The blanket contracts do not cover all capital projects, but are primarily for main/hydrant/service installations/replacements/relocations. For the mains, they are only applicable to mains less than 12 inches in diameter. For mains 12-inches and larger, the individual projects go to competitive bid.

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<sup>22</sup> *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling), filed September 11, 2007.*

Q 3.z) Tab T8 A/B California Water Service Company, General Office, Preliminary Advance Capital Budget. Are there more detailed justifications for the listed expenditures of record? If so, cite them. If not, provide justifications similar to those in the green files accompanying the individual water district testimony for expenditures over \$100,000.

- (i) Page 5 of 26. Part of the GIS hardware/software is for Hawaii. Is this portion exclude from the cost to California ratepayers? If not, explain.
- (ii) Page 6 of 26. What is the Annual program to Enhance and Add to Computer Network?
- (iii) Page 11 of 26. Why do the new proposed hires listed require company vehicles? Do all current employees in similarly compensated positions drive company-provided vehicles?
- (iv) Page 19 of 26. Why do you need to remodel the IS building (\$8,683,200)?

#### Response

A copy of the project justification book for the General Office was submitted along with the individual water district testimony for expenditures over \$100,000. Please refer to the General Office project justification book for details.

i.) General Office rate base is allocated to Hawaii (and to the City of Hawthorne operating contract) by a percentage allocation method (4-factor). As stated in the document, this project has ratepayer benefits for all ratepayers as well. Cal Water feels the allocation proposed in the application is appropriate.

#### ii.) **Networking / Data Center Enhancement Project**

The Networking/Data Center Enhancement Project is a multi-year initiative within the IT Infrastructure Program defined in the Company's Information Technology Strategic Plan. The purpose of this project is to put in place the networking/data center technologies and systems required to support the planned expansion of the Company's business applications.

The budget sheets associated with this project have already been provided. The general scope of this project, as described in the IT Strategic Plan, is as follows:

- Address immediate computing performance improvements as requested by managers and staff.
- Update the networking/data center infrastructure to handle additional demands from the additional applications that are being planned for the Company.
- Install the server hardware and software technologies required to support the new database technologies required for improved regulatory compliance, disaster recovery, and security.
- Extend the networking/data center infrastructure to support the deployment of mobile computing to field maintenance and customer service personnel.
- Continue the progressive replacement of desktop and mobile computers to maintain a stable and robust computing environment.

Within those overarching objectives, the following are some of the major networking/data center enhancements that have been included in the scope and budget for this program:

| Major Networking Enhancements                                     | Justification  |
|---|--|
| New Server Hardware – for Database, Application, and Web Services | These new, upgraded servers will be implemented in support of the Company's core business applications and ensure good performance from the business applications even as they are expanded. These core business applications are to be migrated onto Oracle data management and application management technologies (the industry standard among large water utilities). These new servers are of standard size and performance for supporting Oracle technologies. The existing, less powerful servers will be deployed elsewhere to support less critical applications. |
| Mobile Computers  | In order to meet customer and community expectations, as well as best  |

| Major Networking Enhancements                  | Justification  |
|--|--|
|  | practices, major water utilities are deploying mobile computers to field maintenance and customer service personnel. In keeping with these water industry standards for “out in the field” service, the Company will be deploying mobile computing devices connected back to the data center and the business applications housed there. |
| Storage Area Network (SAN) Expansions          | The SAN expansions are being planned to address the Company’s data growth, which will dramatically increase with additional business applications.   |
| System Software Licenses – Microsoft and Linux | The Microsoft licenses will be needed for new mobile computers. The Linux licenses will be required for optimal performance of Oracle data and application management technologies.  |
| Professional Services                          | Technical expertise from outside consultants will help the Company to implement these new technical enhancements in an efficient manner while bringing the capabilities of internal IT staff up to the level where they can take on more of these implementations in outlying years.   |

iii.) Not all employees have company vehicles. All officers and department managers are provided with a company vehicle. Because of the travel involved with their position, engineering managers are provided with a company vehicle. I.S. managers are not provided with a company vehicle because their position does not require much travel.

iv.) A space needs assessment study was performed by the Sugimura Finney Architecture Firm, supporting the need for this remodel. A copy of this study will be provided in hard-copy form.

**CERTIFICATE OF SERVICE**

**I HEREBY CERTIFY THAT I HAVE THIS DAY SERVED COPIES OF  
CALIFORNIA WATER SERVICE COMPANY'S RESPONSE TO ALJ  
THOMAS'**

**RULING OF October 19, 2007 IN A.07-07-001**

by using the following service:

[ X ] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[ X ] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses, if any.

(Please note there are no parties in this category at this time)

Executed on **November 19, 2007** at San Jose, California.

/s/ Thomas F. Smegal  
Thomas F. Smegal

**NOTICE**

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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As a courtesy, Cal Water is  
also notifying the following in



anticipation of the grant of  
the City of Los Altos Motion:

jsqueri@goodinmacbride.com  
jolie.houston@berliner.com